to in other countries only under the pressure of commercial distress.[1]

A much more important and scientific step than cast-iron rules of circulation was adopted by the Bank of England for the protection of its gold reserve after the crisis of 1857. This step consisted in raising the rate of interest rapidly by degrees of one per cent, at a time, instead of fractions of one per cent., in order to arrest the export of gold. The increasing ease and cheapness of communication had destroyed the value of differences of a fraction of one per cent., when this fraction was divided into fractions of a year, in attracting gold from foreign countries or arresting its departure. The theory of statesmen and students of political economy had generally recognized up to this time only two causes of the export of gold—payments for merchandise and the pressure of a depreciated currency. The bullion brokers, without spending time over theories, had long since learned by observation that it became profitable to export gold when interest rates abroad were higher than at home. They fabricated bills of exchange, had them discounted by bankers, took the proceeds in gold and shipped the gold to the point where it would earn the highest interest. The bills fabricated for this purpose had the character of accommodation bills, in that they represented no merchandise transaction and were drawn for the single purpose of transferring money from the place where it was cheap to the place where it was dear, in order to earn the higher rate of interest.

The fact and possibility of such shipments of gold do not seem to have been known, or at least fully understood, up to this time, by the staid old merchants who formed a majority of the board of directors of the Bank of England. The necessity of meeting the drain by rapid advances in the rate of discount was first set forth in the literature of political economy by Prof. H. D. MacLeod,[2] was quickly adopted as the true theory by Mr. Goschen, and put in force by the bank

[1] For a similar device in Austria, see tlie closing portion of Chapter ix., first edition of this work.

[2] *Theory of Credit,* II., 813-18.